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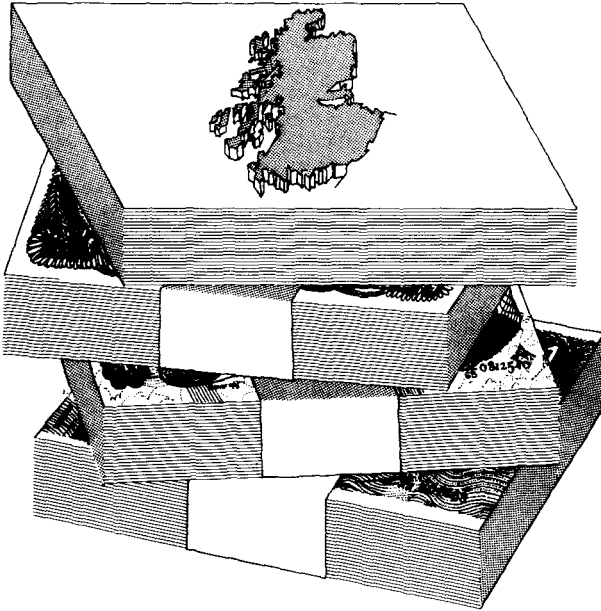
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PRODUCTION

The Scottish Economy



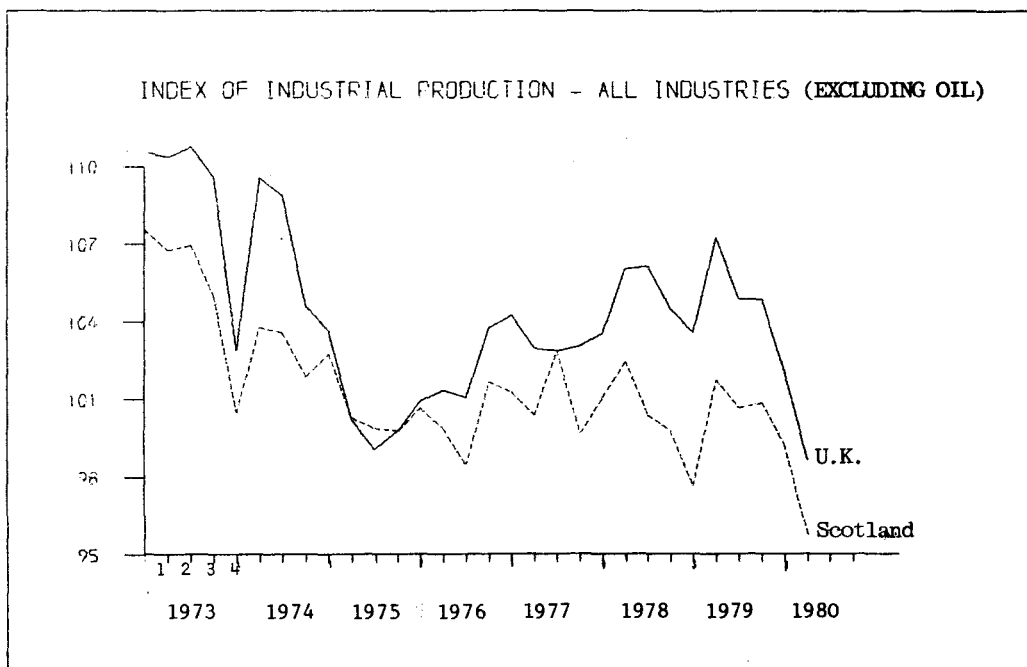
The index of industrial production for Scotland is estimated at 95.1 (1975 = 100)^{1, 2} for the second quarter of 1980 (see Figure 1). Output has declined by 3.5% since the first quarter. The decline in UK output was 4.1%, bringing it to a level of 97.7% for the second quarter. Scottish manufacturing output has declined by 2.5% despite the fact that the metal manufacturing industry recovered from the steel strike which crippled it in the first quarter. Indeed, production in the manufacturing sector (excluding metal manufacture) fell by a dramatic 5.5% from the previous quarter. Comparing the latest year with the preceding one, however, Scottish industrial production fell by 1.5% less than UK production.

The October 1980 CBI Trends Survey shows a continuing pessimistic outlook amongst businessmen although the "degree of pessimism" is less marked than in the July Survey. 51% of firms were less optimistic about the general business situation than they were four months ago

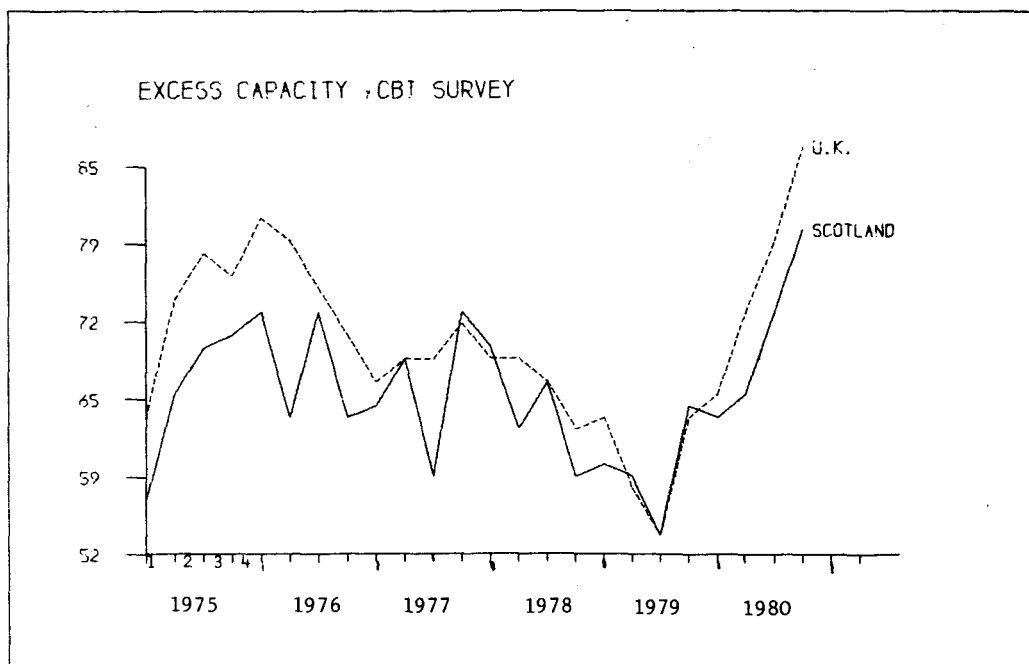
while only 5% were more optimistic. In July the comparable figures were 72% and 5% respectively. 77% of firms responding reported that their present level of output was below capacity (see Figure 2) compared with 70% in July and this, coupled with the fact that 85% of firms' present stocks of finished goods were reported to be either more than adequate or adequate, indicates that there is little prospect of an improvement in the utilisation of spare capacity in the near future. Worsening prospects for employment were indicated by the high level of stocks and are supported by the responses of employers in the survey. Over the third quarter of 1980 a net 45% of firms reduced their workforce and this number was expected to grow to 51% in the last quarter. The figures for the UK as a whole were even more dismal with a net 65% of firms indicating that they expected to reduce numbers employed during the last quarter. The continuing strength of sterling is cited by employers, competing both in overseas and domestic

¹Unless otherwise stated industrial production figures are seasonally adjusted.

²Excludes oil and gas (MLH 104)



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

markets, as being a major difficulty. On balance, 35% of firms' present export order books are below normal although this is less serious than the figure for total orders where 74% of firms' order books are below normal. A partial explanation for this may be that in the markets where Scottish goods are competitive, buyers do not anticipate a fall in the exchange rate and are not delaying placing their orders. Again the main factors cited as limiting firms' ability to obtain export orders are prices and political and economic conditions abroad.

INVESTMENT

The 1981 investment survey carried out by the Scottish Council Research Institute paints a bleak picture for the Scottish economy over the coming year. They estimate that, in real terms, investment will fall by 31%. Only 25% of the companies in their sample expected to increase investment over last year's level (compared with just over 50% of firms last year). Most of the investment is earmarked for capital replacement purposes rather than for increasing capacity. The report estimates that 25,000 jobs will be lost in manufacturing industry and perhaps as many as 60,000 in the Scottish economy as a whole.

The CBI Survey is similarly pessimistic, reporting that expectations for authorisations of capital expenditure over the next year will continue their downward trend. A balance of 52% of firms expect to reduce spending on buildings and 53% expect to spend less on plant and machinery. The July survey figures for building and plant and machinery were 41% and 40% respectively. The corresponding UK figures were 49% and 46.6% respectively. This indicates a significant deterioration in investment intentions over the last quarter.

COMPANY FORMATIONS AND DISSOLUTIONS

At 667 for the third quarter of 1980, the number of new companies incorporated is at its lowest level since the first quarter of 1978. However, this figure is still relatively large in historical terms suggesting that it may be sensitive to institutional as well as to economic influences. The number of company dissolutions, at 230, although less than half of the corresponding figure for 1979 has increased slightly over the previous quarter's figure.

OVERTIME

Although average overtime hours per operative working overtime increased by 0.1 to 9.0 hours in the third quarter, the percentage of operatives on overtime decreased by 4% to 26.7%, the lowest recorded figure for five years. In the week ended 11 October 1980, 936.9 thousand hours of overtime were worked in Scotland, more than 400 thousand hours less than the corresponding week in 1979. In the UK, a similar trend is evident the total number of overtime hours worked falling by 15.3% between October 1979 and October 1980. The downward trend is evident both in the decline of total hours of overtime worked and number of workers working overtime.

BANK ADVANCES

Total advances to UK residents by Scottish Clearing Banks as at mid November 1980, stood at £3,823 million. having increased by £117 million (+3%) over the previous quarter and by £828 million (+25%) over the previous year. Over the quarter, increased advances were mainly absorbed by the industrial sector, professional services (+£59 million) and chemical industries (+£26 million) being marked in this respect. Both personal and public sectors however, have either slowed down their increase in borrowings or reduced them. The reduction in borrowing by utilities and national government (-£26 million) would seem to reflect government cash limits and other restraints, and the slowdown in personal sector borrowing the constraining effects of high interest rates.

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CONSTRUCTION

The value of new orders received by contractors in Scotland in the second quarter of 1980 fell by £12 million over those in the first quarter. Compared with the corresponding quarter of the previous year, orders have declined in current values by £145 million (-43%), a 57% fall in real terms. In the public sector, while the value of new housing orders recovered from the extremely depressed levels of the first quarter, all other items, with the exception of school and college building, fell in both current and real values. Roads and harbours were most severely affected falling by £9.1m (-33%). In the private sector the outlook is also gloomy. In real terms orders have declined, although current values for orders have been sustained or have risen slightly over those for the previous quarter. When judged against the performance of the corresponding quarter of the previous year, however, new orders placed by the private sector have declined in current terms.

INDUSTRIAL PERFORMANCE

AGRICULTURE

There was a temporary respite for the depressed beef market in the approach to the Christmas Season, with a strong recovery evident in cattle prices, and producers in Scotland received the target price for the first time since July. This situation is unlikely to continue in the New Year, and the market faces a return to depressed conditions.

The sheep market is beginning to settle after the introduction of the new sheepmeat regime in October. Initially marketings of lamb were exceptionally high as lambs held back before the new regime were brought onto the market, thereby causing market prices to fall. With this inflated level of marketings out of the way, prices are expected to rise again, although remaining below the guaranteed price. It is expected that slaughterings will be slightly higher over the period January-March this year than they were for the same period in 1979.

In response to pressures from affected parties, improved support measures have been offered to hill and upland farmers, experiencing financial difficulties. These measures consist of increasing the compensatory allowances on cattle and hill sheep (excluding upland sheep) by £7.50 and 75p per head, respectively, well within the maximum increases allowable under EEC rules, and an increase in the maximum rate of subsidy per hectare.

UK milk production continues to fall, and Scotland's production has been falling particularly sharply. In October, the Scottish Milk Marketing Board area production was down 5.8% on last year, while UK production fell by 4.4%. The North of Scotland experienced a fall in output of 7.6% in September and 7% in October. This has been due to a continuing reduction in dairy herd numbers, and the poor quality of late season grazing. A recent increase in the retail price of milk seems likely to further the steady decline in liquid milk consumption.

FISHING

Total landings in Scotland (by UK vessels) for the first nine months of 1980 were 265,458 tonnes, an increase in volume of 9% over the same period in 1979. Once again the value of the catch has fallen, by around 6% on last year. This is equivalent to a drop of £50 in the value of each tonne landed.

The success of British conservation measures in the North Sea means that allowable catches should be increased in 1981. The strong recovery of haddock and whiting stocks, important to British fishermen, could result in total allowable catches being raised by up to 57% and 24% respectively.

The collapse of the recent EEC negotiations on a Common Fisheries policy, over the key issues of quotas and fishing rights, will cause further delay in the achievement of a policy. A more immediate problem caused by the breakdown is the failure to make annual quota arrangements between the EEC

and non-member countries. This has resulted in UK fishermen being banned from Norwegian and Faroese waters - particularly damaging to Scottish boats at this time of year. It is hoped that some interim agreement can be reached between the EEC and the two countries within a few weeks.

OIL AND GAS

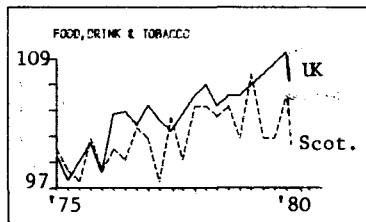
Oil production for November averaged 1.7m barrels per day. UK consumption was 82m tonnes compared with 94.5m tonnes in 1979 and the Department of Energy forecasts that demand will remain at between 80 - 90m tonnes annually, perhaps even lower, during the 1980's. As production estimates for the 1980's are revised downwards industry sources are confident that self-sufficiency will be extended until at least the end of the century and greater emphasis will be placed on developing smaller fields. However, on current BNOC predictions there will still be an excess of supply over demand during the 1980's and annual output could rise to 115 - 130m tonnes. The question of the government's depletion policy is still, therefore, a crucial issue. They announced, at the end of December a two year delay in approval for the development of BNOC's Clyde field in order 'to prolong production'. This could have implications for other plans and companies may have to prove special circumstances for development plans to be ratified. (It also has implications for the PSBR.)

The new allocation system for licensing agreements, introduced in the 7th Round and based on company nominations has proved popular. The Department of Energy has provisionally awarded 42 licences for which operators pay a £5m premium for each block. A further batch of 50 blocks were offered under the current system of licencing and these will be allocated in the near future. There has been renewed interest in exploration and test drilling. Wood MacKenzie forecast that it could double by 1983. Activity will be largely constrained by the limited world supply of rigs. The current shortage of drilling rigs accounts for the buoyancy of the market, and subsequent increased optimism at UIE at Clydebank and the introduction by Howard Doris of a new design for a concrete semi-submersible drilling rig.

The OPEC countries agreed a 9% oil price rise in December. Following the Libyan increase by \$4 to \$41 a barrel it is expected that BNOC may allow the traditional gap between their premium price and the West African price to widen and increase North Sea oil by only \$3 a barrel. Following the Chancellor's economic package in November there has been considerable public discussion about the size of North Sea oil revenues, the implications of the changes in PRT on company policy and profits and the size of the tax contribution to the Exchequer. There will be further consultation with oil companies about the scope of tax free allowances but the proposed supplementary revenue tax will, in effect, be a second royalty payment on oil produced from 1981 onwards.

It is now almost certain that gas from the Norwegian sector of the North Sea, and most importantly the Stratfjord field, will be piped to a Norwegian or Continental landfall. It will not form part of the British gas gathering system.

FOOD, DRINK AND TOBACCO



In contrast to the previous quarter, when the food, drink and tobacco sector was one of only two manufacturing sectors to experience a rise in output, in the second quarter it experienced the largest fall in production of 7% to an index level of 99. The fall in production is matched by the pessimistic response of producers in the October CBI Industrial Trends Survey. 73% of respondents are operating below a satisfactory level of

capacity, although fewer respondents - 27% - feel that the general business situation will worsen over the next four months.

Linden Bakery, of Govan, is to close in February, with a loss of 350 jobs. Imperial Tobacco are to close their Ardeer plant, which manufactured the commercially unsuccessful tobacco substitutes and this will mean a loss of 40 jobs.

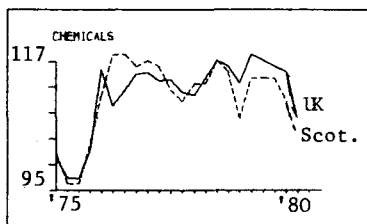
WHISKY

Production in the third quarter of 1980, was 73,523 thousand litres of pure alcohol, a fall of 38% on the previous quarter's production, and 25% down on production in the same period of 1979. There is a tendency for production to fall in the third quarter of each year, but this is by far the largest reduction in recent years.

Total exports in the third quarter were 62,528 thousand litres, an increase of 11% on the previous quarter, but a decrease of 9% on the figure for 1979.

The general economic recession continues to depress demand for whisky, causing overseas distributors to reduce their stocks and increasing the stocks of producers. This has made short-time working inevitable - already 1,100 employees of Scottish Malt Distillers are on short-time - and 6,500 workers at the parent company, Distillers, face reduced hours in the near future. No redundancies are envisaged, however, and there may be some improvement in the industry when the current destocking phase comes to an end. The continued strength of sterling makes it unlikely that overseas demand will improve significantly.

CHEMICALS

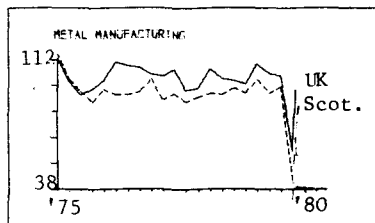


Production in the second quarter of 1980 fell by 4% to an index level of 108, less severe than the 9% fall experienced in the UK. Respondents to the October CBI Survey are operating below 92% of capacity, and 41% expect the business situation to worsen over the next four months. A massive 87% of respondents expect that they will reduce their workforce in the coming months, with a lack of orders being the dominant cause cited.

The ICI nylon works at Ardeer are to shut down because of heavy losses sustained in ICI's Fibres Division. About 750 jobs will be lost.

The government has accepted a recommendation from the gas gathering group that methane will be sold to British Gas; ethane will be extracted at St Fergus and piped to individual users; and the remaining associated gases processed at Nigg. Preparatory work on ethane lines to Moss Moran, Grangemouth and Teeside is to be carried out and a line to Nigg is under consideration. There has been competition for priority ethane supplies, used as the basis for chemical feedstock, from seven chemical groups. The pressure from ICI, Shell, BP and Esso for all ethane to be piped south, which would have effectively ruled out at the proposed new developments at Nigg and Peterhead has failed. The government has decided that the allocation should be subject to strictly commercial negotiations and should go forward as quickly as possible. They consider that there will be sufficient supplies to provide a basis for all the projects by the mid-1980's.

METAL MANUFACTURE

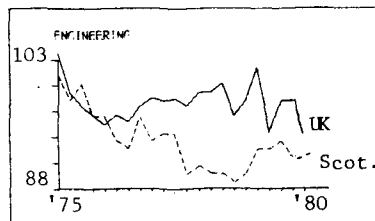


The index of industrial production for metal manufacturing for the second quarter of 1980 recovered from the exceptionally low level, due to the steel strike, recorded during the first quarter. The CBI Industrial Trends Survey for October reported that overall pessimism about the general business situation had changed little since the July survey. However under-utilisation

of capacity rose to 96% and the proportion recording a drop in the volume of new orders over the previous four months also rose to 74% compared with 39% in July. The Steel Stockholders Association in Scotland expected supplies to consuming industries in 1980 to be 30% down. Although they see no signs of the recession lifting they suggest that demand has stabilised since the low point reached in August.

The British Steel plan, put forward by their chairman Ian MacGregor in December, envisaged the loss of 640 jobs in Scotland. Although the plan has been accepted by the direct ballot of the workforces and the £750m cash injection looks secure, unless monthly production targets are reached a major strip complex in South Wales or Scotland could be threatened. The closure of Gartcosh would have severe repercussions on Scottish industry. British Steel also announced that it will dismantle the unused Hunterston plant and is looking for a buyer for the equipment.

ENGINEERING



Production fell by 5% in the second quarter of 1980 with only electrical engineering recording a slight gain and maintaining the growth achieved in recent years. The CBI Industrial Trends Survey for October reported that 65% of firms in mechanical, instrument electrical and vehicle engineering were less optimistic about the general business situation than four months previously although this is

an improvement on the July figure of 84%. The sector reports less

pessimism than industrial firms overall.

According to the recent Scottish Council Annual Investment Survey for 1981 numbers employed in engineering will be cut back still further, even in mechanical engineering where they reported a planned increase in investment in real terms. Following redundancies of over 1,000 in Scotland the Weir Group returned a pre-tax loss for the six months up to June 1980. More recently they have won a number of important export orders and the company has now passed through its worst period. Another well established engineering concern - John Brown - has given notice that unless orders are forthcoming soon, further redundancies may be announced in March. They are currently involved, however, in sub contracting work for the UIE rig orders at Clydebank.

Electrical engineering has not escaped the contraction in labour. Two Dundee firms gave notice to 150 employees while Burroughs are to make 20% of their Cumbernauld workforce redundant at the end of February. The SDA commissioned a firm of consultants to look at the feasibility of setting up a micro-electronic applications centre involving the agency, universities and industry. After a number of delays Edinburgh and Heriot Watt universities decided to go ahead together and set up a self-financing centre to market the applications of the technology to industry.

SHIPBUILDING AND VEHICLES

World shipbuilding demand is still expected to pick up in 1982 and in spite of Japan's dominance in the market there is greater confidence about British Shipbuilder's competitive position. The cash limit placed on British Shipbuilders has been raised to £185m, and £100m from the intervention fund is available for future subsidies, subject to EEC approval.

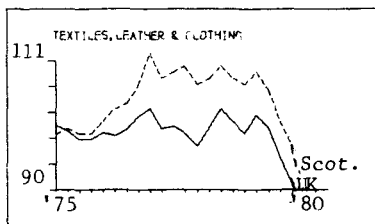
It was thought at the end of last year that, Scottish yards, with the exception of Hall Russell in Aberdeen, had work for the current reduced workforce until the end of 1981. The Scottish Council Investment Survey for 1981 also reported that employment would remain steady during the year. However recent evidence suggests that the level of voluntary redundancies foreseen by British Shipbuilders a year ago, has not been achieved and there could be further redundancies to bring manning levels to the reduced target. In the medium to longer term the yards need to become further involved in oil related vessels. Two North Sea orders were recently won by foreign firms but Scott Lithgow have added a £50m order for a semi-submersible drilling rig for BP to the ESV currently being built for the company. A consortium including Scott Lithgow and Govan are tendering with a reasonable chance of success, for a floating platform for Occidental's Claymore field. UIE at Clydebank won a second order for a jack up drilling rig for the Mexican company Permargo thus ensuring security of employment for the 800 labour force until at least March 1982.

Vehicle manufacturers face a particularly bleak future. Demand both at home and abroad for tractors and trucks in particular has fallen substantially over the last year. Notwithstanding the £135m investment programme and the introduction of short-time working in August, Leyland Vehicles have announced that a further 1,300 redundancies will be made at their two Scottish plants. As voluntary contraction took place last summer compulsory redundancies are likely among the 1,000 to be made redundant at

Bathgate and the 380 at the Albion works in Glasgow.

Talbot's Linwood plant has also been operating on short-time since last August and has accumulated substantial stock piles. The French owners Peugeot announced the suspension of the Avenger model and there is little possibility that it will start up again. A decision on investment plans for the three British plants is to be made public in February. Linwood could exist on a temporary and reduced basis on the Sunbeam models but there is no long-term future without bringing the new small front wheel drive C15 to the plant. This option, according to most sources, is increasingly unlikely. Land-Rover have withdrawn from negotiations for the Stonefield plant as they felt unable to take on further commitments at this time.

TEXTILES, LEATHER AND CLOTHING



The downward trend of output continued in the second quarter of 1980, when production fell by 3% to an index level of 95, a relatively better performance than that of the UK.

On balance, 49% of respondents to the October CBI Survey are less optimistic about the general business climate than 4 months previously. 14% stated that total orders are below normal, and 66% expect that employment in the industry will fall over the next four months.

Already, 500 prospective redundancies in Scotland have been announced. J & P Coats of Paisley are to cut 250 jobs, and 170 jobs are to be lost at Welch, Margetson & Company of Kilwinning. Turnbull (Hawick) Limited intend to close one of their factories in Hawick, meaning a loss of almost 100 jobs. Antartax, Britain's largest manufacturer of sheepskin goods, are to make 30 workers redundant. In contrast to the contraction of many firms, Ballantyne Sportswear intend to expand their Bonnyrigg plant, creating 150 new jobs, to keep up with orders.

BRICKS, POTTERY, GLASS AND CEMENT

Production fell in the second quarter of 1980 by 7% to an index level of 83, the lowest level for several years. The Scottish sectors performance is relatively worse than that of the UK.

Rockware Glass of Ayrshire announced further redundancies of 270 workers, the second such move within three months. The deepening recession and adverse sales, especially to the important whisky industry, have been cited as the causes of this reduction in the labour force. The firm intends to continue its £1million modernisation programme at Irvine in order to improve competitiveness.

**PAPER, PRINTING
AND PUBLISHING**

Output fell in the second quarter by 5% to an index level of 103, while the UK experienced a sharper decline of 9%.

The Culter paper mill of Aberdeen is to be closed next month, with a loss of 300 jobs. The heavy losses made were put down to high energy costs, the high level of sterling, and overtly subsidised foreign competition. The company will maintain operations at Fife only.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 shows the estimated number of employees in employment in each quarter in Scotland and in England & Wales, for the five quarters June 1979 to June 1980.

TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND AND IN ENGLAND & WALES (000's)

SCOTLAND	TOTAL	MALES	FEMALES	FEMALE/ MALE RATIO	SCOTTISH EMPLOYMENT AS % OF GB EMPLOYMENT
June, 1979	2,077	1,188	889	.75	9.31
Sept, 1979	2,078	1,188	890	.75	9.30
Dec, 1979	2,054	1,174	881	.75	9.22
Mar, 1980	2,025	1,158	868	.75	9.23
June, 1980	2,027	1,154	873	.76	9.25

ENGLAND & WALES

June, 1979	20,232	11,848	8,384	.71
Sept, 1979	20,277	11,901	8,376	.70
Dec, 1979	20,223	11,803	8,420	.71
Mar, 1980	19,919	11,659	8,259	.71
June, 1980	19,879	11,611	8,268	.71

Source: Department of Employment Gazette

Although there was a small increase between March and June 1980, numbers employed in Scotland fell by 50,000 (2.4%) between June 1979 and June 1980. Male job losses (34,000 or 2.9% of the June 1979 figures) have been proportionately greater than female losses (16,000 or 1.8%). In England and Wales total employment fell less rapidly; by 1.7% between June 1979 and June 1980. Statistics of employment by broad sector, shown in Table 2, show that the fall in employment in both Scotland and in England & Wales was concentrated in manufacturing. In Scotland, however the fall in manufacturing employment (7.8%) has been proportionately greater than in England & Wales (4.8%), and this is the principal cause of Scotland's poorer performance.

The total registered as unemployed in Scotland in December 1980 was 261,767, an increase of more than 7,000 over the previous month and of more than 81,000 (45%) over December 1979. Seasonally adjusted, and excluding school leavers, unemployment in Scotland rose from 170,500 in December 1979 to 246,100 in December 1980, a 44% increase. As an historical perspective on the gravity of the present recession, at the time of the first issue of this Commentary, in July 1975, the total level of unemployment in Scotland had reached the alarming level of 98,700. Total manufacturing employment in mid 1975 was 637,000, compared with the present 555,000, a fall of nearly 13%. It is worth noting however that while the number of adult unemployed has increased by about 147,000 in this five and a half year period, the number of employees in employment has declined by 49,000. Hence the main source of the increase in recorded unemployment is the growth in the labour force. Though this is of little comfort, least of all to the unemployed, it highlights the distinction between job losses and increases in unemployment.

TABLE 2 EMPLOYMENT BY SECTOR, JUNE 1980

SCOTLAND

SECTOR	NO EMPLOYED (000's)		% OF TOTAL (JUNE 1980)	CHANGE IN NO EMPLOYED JUNE 1979-JUNE 1980 (000's)
	JUNE '80	JUNE '79		
Agriculture, Forestry & Fishing	47	(48)	2.32%	- 1
Manufacturing	555	(602)	27.38%	- 47
Construction, Utilities & Mining	227	(231)	11.20%	- 4
Services	1,198	(1,197)	59.10%	+ 1
Total	2,027	(2,077)	100%	- 50

ENGLAND AND WALES

Agriculture, Forestry & Fishing	310	(308)	1.56%	+ 2
Manufacturing	6,105	(6,413)	30.71%	-308
Construction, Utilities & Mining	1,681	(1,703)	8.46%	- 22
Services	11,783	(11,809)	59.27%	- 26
Total	19,879	(20,232)	100%	-353

Note: Constituent items may not add to totals due to rounding.

Source: Press Notices

Unemployed school leavers in Scotland doubled between December 1978 and December 1980 (Table 3) and the present figure is 13% of the Great Britain total. There is no indication in any of the unemployment statistics of Table 3 of any incipient improvement, though this is to be expected as employment is a lagging rather than a leading economic indicator. In contrast to the employment data in Tables 1 and 2, which relates to an earlier 12 month period, the relative deterioration in Scotland over the year to December has been less marked than in Great Britain (and hence England & Wales) as a whole. This reflects a fairly consistent pattern in the downswing of the business cycle, in which Scotland is affected earlier than the more prosperous areas of the country.

TABLE 3 UNEMPLOYMENT, SCOTLAND AND GREAT BRITAIN

	Scotland			Great Britain		
	Dec.1979	Dec.1980	Change	Dec.1979	Dec.1980	Change
Total unemployed incl.school-leavers	180,250	261,767	+81,517 (45.2%)	1,292,040	2,150,500	+858,460 (66.4%)
School-leavers (under 18)	5,800	11,584	+ 5,784 (99.7%)	35,702	88,600	+ 52,989 (148.2%)
Seasonally adj. unemployed (exc. school-leavers)	170,500	246,100	+75,600 (44.3%)	1,233,800	2,045,300	+811,500 (65.8%)
Unemployment percentages - total unemployed	7.9%	11.6%		5.5%	9.1%	
Unemployment percentages - seasonally adj.	7.5%	10.9%		5.2%	8.7%	

Source: Department of Employment

TABLE 4 REGIONAL UNEMPLOYMENT & VACANCIES IN THE UK, 11 DECEMBER 1980

	UNEMPLOYED ^{1,3} (000's)	UNEMPLOYMENT RATE (%)	VACANCIES (000's)	UNEMPLOYMENT/ VACANCIES RATIO
South-East	452.5 (371.1)	6.0 (4.9)	39.8 (49.3)	11.4 (7.5)
East Anglia	51.3 (42.2)	7.1 (5.8)	3.4 (3.8)	15.1 (11.1)
South-West	134.3 (112.7)	8.1 (6.8)	7.7 (7.6)	17.4 (14.8)
West Midlands	232.1 (185.9)	9.9 (8.0)	5.2 (5.7)	44.6 (32.6)
East Midlands	128.8 (106.1)	8.0 (6.6)	5.3 (5.7)	24.3 (18.6)
Yorks & Humber	195.8 (161.4)	9.3 (7.6)	6.5 (5.7)	30.1 (28.3)
North & West	306.2 (263.1)	10.7 (9.2)	8.1 (8.8)	37.8 (29.9)
North	164.7 (141.2)	11.9 (10.2)	5.0 (5.1)	32.9 (27.7)
Wales	128.6 (111.8)	11.9 (10.3)	5.1 (5.2)	25.2 (21.5)
Scotland	246.1 (220.2)	10.9 (9.7)	15.0 (15.2)	16.4 (14.5)
GB	2045.3 (1707.0)	8.7 (7.2)	101.2 (112.1)	20.2 (15.2)
N Ireland	88.0 (76.5)	15.3 (13.3)	0.8 (0.7)	110.0 (109.3)
UK	2133.3 (1783.5)	8.8 (7.4)	102.0 (112.8)	20.9 (15.8)

¹Seasonally adjusted excluding school leavers.

²Seasonally adjusted excluding vacancies notified to careers offices.

³Figures for June in brackets.

Source: Department of Employment

This cyclical pattern can also be seen in Table 4 (though the data on vacancies must be interpreted with caution). The increase in unemployment and decline in vacancies in the more prosperous regions (the South-East, East Anglia, South-West, West and East Midlands) has been more marked than in Scotland (and in some other less prosperous regions) in the last quarter of 1980. A notable feature of the data in Table 4 is that Scotland has the third lowest unemployment/vacancies ratio amongst the eleven regions, and the second highest absolute level of vacancies. This appears to indicate a greater degree of structural imbalance in the Scottish labour market.

The effects of the current recession are seen not only in the unemployment statistics but also in the extent of short-time working and in government measures to subsidise employment. Table 5 records the number of operatives on short-time in the five quarters to September 1980 and average hours lost per operative, for Scotland and Great Britain as a whole.

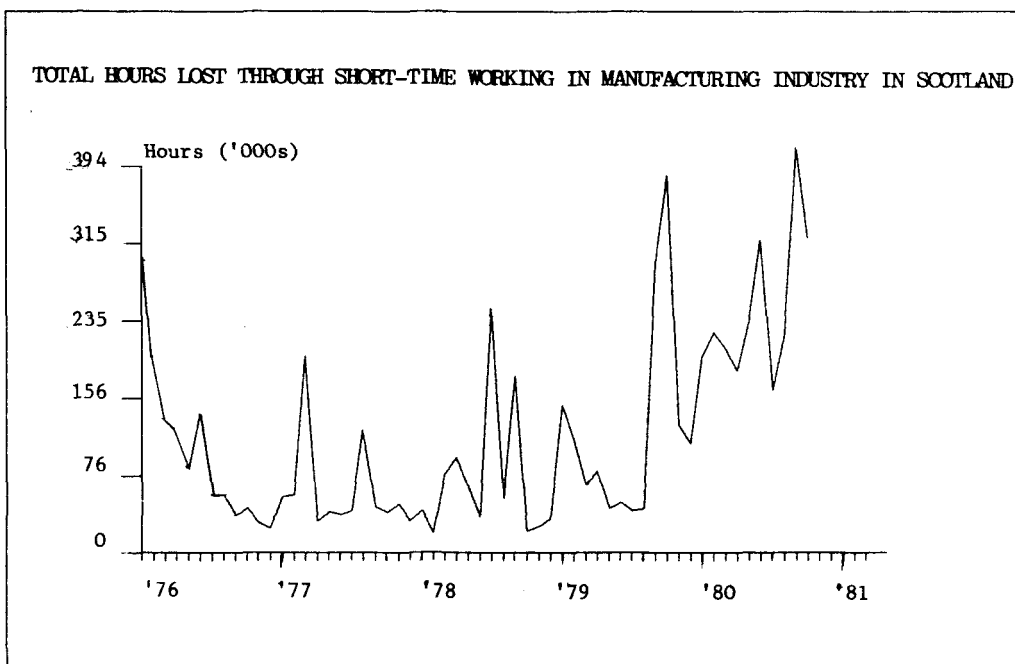
TABLE 5 SHORT-TIME WORKING, SCOTLAND AND GREAT BRITAIN

	TOTAL OPERATIVES ON SHORT-TIME (000's)	% OF ALL OPERATIVES ON SHORT-TIME	AVERAGE WEEKLY HOURS LOST FOR OPERATIVES
SCOTLAND			
1979 3rd quarter	6.6	1.4	15.3
1979 4th "	11.1	2.4	17.3
1980 1st "	10.7	2.5	19.7
1980 2nd "	12.5	2.9	19.7
1980 3rd "	16.7	4.0	16.7
GREAT BRITAIN			
1979 3rd quarter	38.0	0.8	14.5
1979 4th "	72.2	1.4	15.7
1980 1st "	126.0	2.6	14.6
1980 2nd "	176.9	3.7	13.6
1980 3rd "	283.9	6.1	14.1

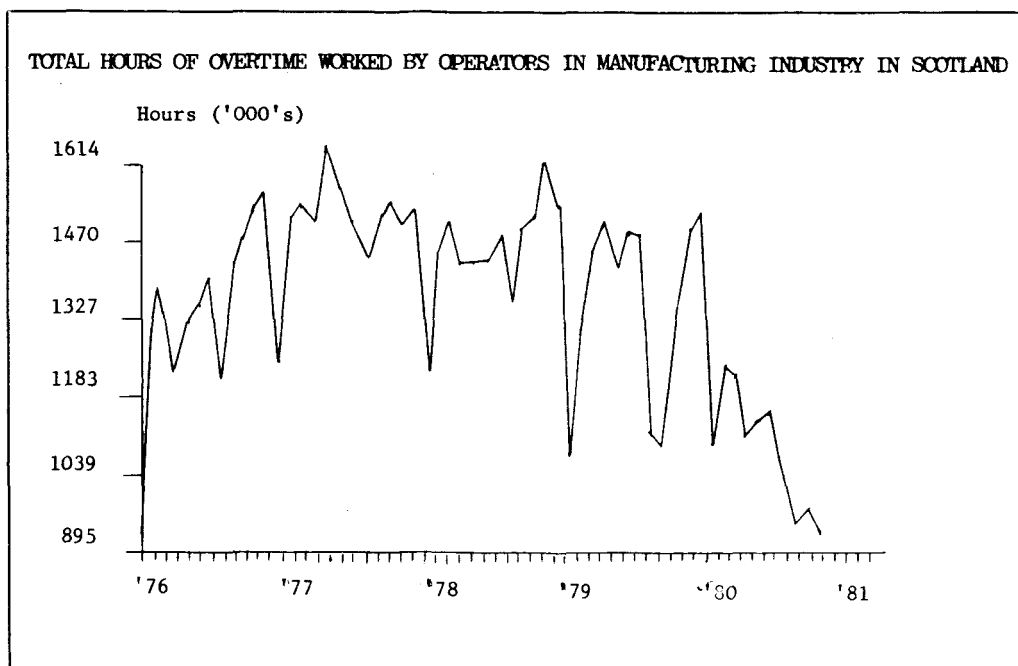
Source: Department of Employment Gazette

These figures show that through 1980 the number and proportion of workers on short-time increased more rapidly in Great Britain as a whole than in Scotland, and are consistent with those changes reported earlier with respect to unemployment and vacancies. In Scotland, however, the average hours lost (the degree of short-time working) per operative is greater - i.e. proportionately fewer people are on short-time in Scotland, but those affected are laid off for longer periods. Supplementary data on short-time working and overtime working are illustrated in Figures 1 and 2.

Some indications of the extent of job subsidisation is given by Table 6, which records the numbers affected by various government measures to maintain or create employment.



Source: Department of Employment



Source: Department of Employment

TABLE 6 SPECIAL EMPLOYMENT AND TRAINING MEASURES, SCOTLAND AND GB

MEASURE		NOV. 1979	JAN. 1980	NOV. 1980
Temporary Short-Time Working Compensation Scheme*	Scot	19,900	10,290	41,800
	GB	86,170	111,000	509,500
Temporary Employment Subsidy	Scot	1,400	-	-
	GB	18,900	-	-
Small Firms Employment Subsidy	Scot	12,400	4,900	-
	GB	72,800	28,100	-
Job Release Scheme	Scot	4,800	5,350	5,130
	GB	57,600	66,100	63,300
Job Introduction Scheme	Scot	12	-	-
	GB	120	-	-
Youth Opportunities Programme	Scot	14,000	14,600	22,300
	GB	105,000	80,000	155,000
Community Industry	Scot	1,328	1,390	1,390
	GB	6,100	6,100	6,300
Special Temporary Employment Programme	Scot	2,300	2,300	2,750
	GB	15,000	10,000	11,400
Training Places Supported by Industry	Scot	2,479	700	1,350
	GB	15,800	12,700	22,200
Total No of People Covered	Scot	59,000	39,500	74,720
	GB	378,000	314,000	767,000

*From April onwards, the basis for figures for TSTWC scheme was changed from the number of workers covered by approved applications for short-time working to number of workers for whom payment was actually made.

Source: Department of Employment

Data for November 1979 are not wholly comparable with those for May 1980 and November 1980, due to a change in the method of counting those affected by the Temporary Short-Time Working Compensation Scheme. Between May and November however the number of persons covered by these various schemes increased by over 35,000 in Scotland (89%), and by 453,000 (144%) in the whole of Great Britain.

REGIONAL REVIEW

UNEMPLOYMENT AND VACANCIES

The total number unemployed in Scotland rose to an unprecedented level of 261,767 in the last month of 1980, representing an unemployment rate of 11.6%. Without exception every region of Scotland experienced an increase in unemployment with the Western Isles and Strathclyde still leading the way with unemployment rates of 17.4% and 13.9% respectively. Between September and December the numbers unemployed in Strathclyde alone rose by almost 9,000.

During 1980 Scottish unemployment increased by 81,517, a percentage rise of 45.2%. Of the total annual increase Strathclyde contributed 49,314 or 60%. Grampian experienced a 39% rise in unemployment during 1980 reflecting the manner in which even the relatively prosperous regions of Scotland are being hit by the current recession. Whether rural or industrialised all the regions of Scotland will look back on 1980 as a year of continuing gloom.

Just as bleak a picture is reflected in the number of notified vacancies. In December 1980 the Scottish figure had dropped to 12,781 (seasonally adjusted) from a September figure of 16,702. Only in Dumfries and Galloway and Central were there rises in the number of notified vacancies. As with unemployment Strathclyde was the major contributor to the absolute total fall in vacancies. In percentage terms the Highlands experienced the largest drop.

Over the past year the number of notified vacancies in Scotland fell by 8,025. Of this total 3,771 or 47% took place in Strathclyde. However in percentage terms the worst hit regions were Fife and Tayside with falls of 49.2% and 45.3% respectively. Mainly due to the buoyant figures for December 1980 Dumfries and Galloway actually managed to increase its number of vacancies by 103.7% over the year. However, with unemployment at 11.6% prospects still look unfavourable.

REGIONAL DEVELOPMENT GRANTS

The level of Regional Development Grants (over £25,000) fell to £7.53m in the second quarter of 1980 and rose to £13.3m in the third quarter. In constant 1975 prices the respective figures are £4.0m and £6.7m. However with the recession biting deeply into the manufacturing areas of the Central Belt it is likely that the level of grants will decline

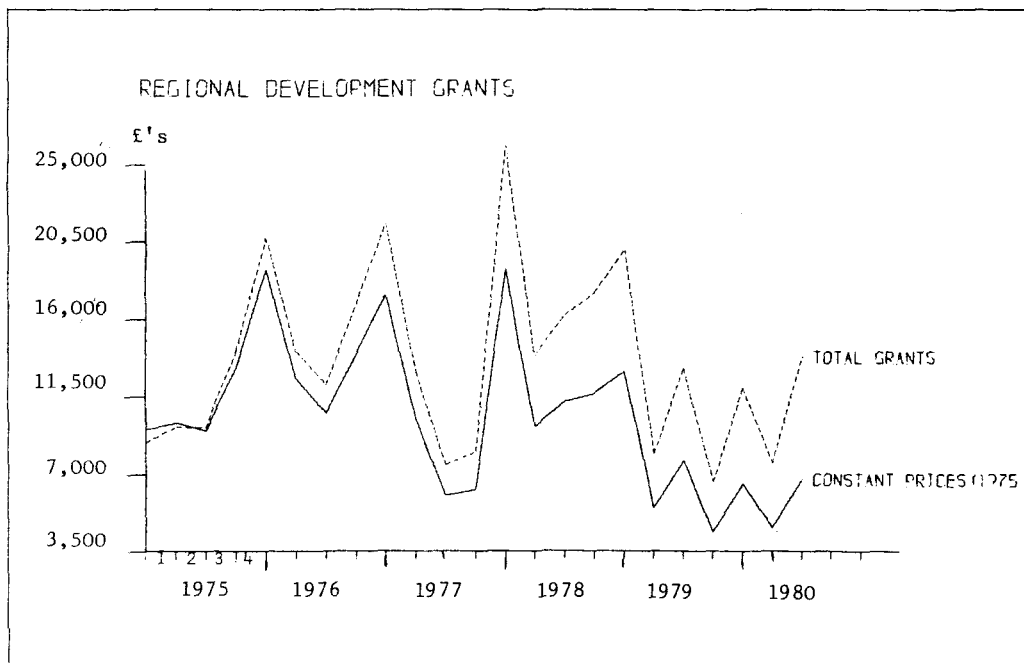
This is because regional development grants are paid to firms as a subsidy to their investment programmes. As such they are not counter-cyclical. The low level of investment during 1980 will result in a low level of grant payments during 1981 (payment of these grants is subject to a time lag). If, as is suggested, investment expenditures remain low in 1981, the low level of grant payments can be expected to continue for a lengthy period.

**UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES
NOTIFIED BY SCOTTISH REGIONS, DECEMBER 1980**

	TOTAL UNEMPLOYMENT		UNEMPLOYMENT RATE %		VACANCIES	
Borders	2,473	(1,861)	6.3	(4.8)	301	(304)
Central	12,584	(10,484)	10.6	(9.3)	800	(554)
Dumfries and Galloway	6,453	(5,440)	11.6	(9.7)	705	(259)
Fife	14,248	(13,090)	10.4	(9.6)	507	(644)
Grampian	11,775	(10,382)	6.3	(5.6)	1,849	(2,041)
Highland	8,431	(6,853)	10.7	(8.7)	617	(1,442)
Lothian	29,971	(28,253)	8.7	(8.2)	1,732	(2,870)
Strathclyde	153,521	(144,528)	13.9	(13.1)	5,377	(7,302)
Tayside	20,008	(17,672)	11.6	(10.2)	710	(967)
Western Isles	1,440	(1,157)	17.4	(14.0)	54	(106)
Orkney	520	(462)	8.4	(7.5)	20	(27)
Shetland	343	(256)	3.9	(2.9)	109	(186)
SCOTLAND	261,767	(240,938)	11.6	(10.7)	12,781	(16,702)

Figures for September 1980 are in brackets. Unemployment totals and the unemployment rate include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Office.

Source: Department of Employment



Source: Department of Employment Gazette

TAYSIDE STRUCTURE PLAN

The Tayside Region, with a population of 403,000, has borne a heavy load from the current recession. Unemployment currently stands at 11.6% as a consequence of a long series of factory closures and contractions. Despite adverse economic conditions the population of Tayside increased by 1.6% over the period 1971 to 1978, while the total Scottish population fell by 0.9%.

TABLE 1 POPULATION CHANGE 1961-1971 AND 1971-1978 IN SCOTLAND, TAYSIDE AND DISTRICTS

	1961	% Change 1961-71	1971	% Change 1971-78	1978
Scotland	5,179,300	+0.9	5,227,700	-0.9	5,179,400
Tayside	395,900	+0.2	396,500	+1.6	402,930
Angus	85,700	-1.4	84,500	+8.8	91,943
Dundee	194,900	+1.4	197,700	-3.1	191,517
Perth & Kinross	115,300	-0.9	114,300	+4.5	119,470

Source: Tayside Structure Plan

As can be seen from Table 1, this growth has not been balanced with Dundee, the major centre in the region, losing population while the small towns in Angus and Perth and Kinross districts have grown. This trend is expected to continue with people moving out to commuter based housing developments in the towns and villages around Dundee.

The Tayside planners feel that little change can be expected in the level of population and estimate that the probable population of the region will lie in the range 389,000 to 412,000 in 1986. However, while little overall change is expected, the composition of the population is expected to change, in particular the number of people of working age. This clearly has implications for employment policies, a point that the planners stress. While the Plan rightly recognises the dependency of the Tayside economy on conditions pertaining in the national economy, influences can be exerted locally in an attempt to retain and expand employment opportunities.

The structure of employment in Tayside mirrors that of Scotland as a whole.

TABLE 2 EMPLOYMENT STRUCTURE IN TAYSIDE AND SCOTLAND, 1975

	Scotland	%	Tayside	%
Primary	85,000	4	8,439	5
Manufacturing	637,000	31	48,858	30
Construction	173,000	8	13,110	8
Services	1,180,000	57	94,967	57
Total	2,070,000		165,374	

Source: Tayside Structure Plan Report of Survey

What these figures fail to show is the concentration of manufacturing employment in relatively few industries such as Textiles, Instrument and Electrical Engineering and Mechanical Engineering. Further, a small number of firms dominate these sectors with the ten largest firms accounting for about 40% of total manufacturing employment. Such a concentration of employment has made the Tayside economy extremely susceptible to adverse fluctuations in the performance of these industries and firms.

While the Plan recognises the need to widen the industrial base it is pessimistic about the possibility of attracting mobile investment to the Region. Such a view is not without substance given the prevailing economic climate. Despite these views, the planners have nevertheless attempted to make the Tayide Region as attractive as possible to potential employers. This is achieved through the provision of suitable infrastructure together with the provision of readily serviceable industrial sites at key locations. Without neglecting housing opportunities the Plan unambiguously gives priority to the provision of industrial land. The rationale is that without adequate employment opportunities the assumption of maintaining a stable population would prove false and migration away from Tayside could be expected.

The Tayside Structure Plan shows an awareness of the economic constraints facing both potential employers and local authorities. While recognising national constraints the planners examine the various alternatives and subsequently spell out their priorities along with evidence for their choice. Not everybody will agree with all of those choices but most will accept that adequate employment provision is the single most important objective for Tayside. It is only to be hoped that the fully serviced industrial areas developed within the Region succeed in attracting numerous tenants. Unfortunately an economic climate that would ensure this does not seem possible in the immediate future.

OUTLOOK AND APPRAISAL

The causes of the present recession are generally misunderstood. While it is undoubtedly the case that the growth of the world economy has been reduced (see World section), this has, as yet, had little effect on the UK. Exports have been surprisingly buoyant, benefitting perhaps from orders obtained when the pound was at a much lower level. While it is likely that the volume of exports will fall substantially during 1981, due both to the appreciation of sterling and to the world recession, the present problems of the UK economy are not attributable to any decline in external demand.

The other components of final demand have also been remarkably stable with the exception of investment which fell by 2.5% between the second and third quarters of 1980, having already fallen by 2% between the first and second quarters. Private consumption has been close to 1979 levels while government spending has actually been increasing, reaching £6.2bn (1975 prices, seasonally adjusted) in the third quarter. The main brunt of the recession has come not through reductions in final demand, but rather through the massive destocking which took place over the year. The liquidation of stocks, which amounted to £1,072m (seasonally adjusted) during the first and third quarters of 1980, resulted from a number of pressures which combined to severely reduce corporate sector liquidity.

Firstly, the rate of wage increase during the last wage round was considerably in excess of the rate at which producers were able to increase their prices. Gross earnings increased by 22.6% in the twelve months to October while wholesale prices only grew by 13.3% in the year to November. Productivity gains being insufficient to compensate for this difference, profitability inevitably fell (see UK section). Secondly, at a time when firms had to borrow heavily due to lack of profitability, interest rates reached an all-time high, thus further burdening the corporate sector with large interest payments to finance both capital spending and stocks.

Starved of cash, firms reacted by rapidly liquidating their stocks, thus reducing the need to maintain current production levels. With levels of cash-at-hand dangerously low businesses could not afford the luxury of 'hoarding' labour - that is, maintaining the level of employment above that which would be required by present output levels in anticipation of a future upturn.

The problems of 1980 were thus caused by a failure of intermediate demand, in turn a reflection of too rapid rates of wage increase and high interest rates. During 1981 the recession will adopt a somewhat different character with final demand bearing the brunt of the expected 1% reduction in GDP. Private consumption will fall as wage settlements drop below the rate of price inflation. As indicated above, exports will decline, reflecting both the strength of sterling and the slowdown in the world economy. Investment, both public and private will plummet: public investment falling because successive governments have failed consistently to prune current public sector spending in times of financial stringency and private investment falling because the private sector is still short of cash and also because its view of the future is an extremely pessimistic one.

The recession in Scotland is no different in character from that in the UK as a whole. Individual crises are brewing in particular sectors (see Industrial Performance) but appeals for direct assistance from government in these sectors is much less likely to succeed than has been the case in the past. The government, after the substantial failures of last year is now determined to hold the line on public spending. Further, Scottish claims for special treatment must now compete with many others both from the other traditionally depressed areas and from areas, such as the West Midlands, which had previously been thought to be immune from structural collapse. The government are keen to emphasise that increased public sector spending will, in the long-run, either lead to higher levels of inflation or "crowd-out" an equivalent amount of private sector expenditure by raising interest rates. Thus the recent appeal by the STUC, Scottish Council and COSLA for a simultaneous reduction in interest rates and an increase in public sector capital spending is unlikely to meet with a positive response.

Detailed forecasts, indicating the Institute's view of the likely course of the recession in Scotland are given below:

QUARTERLY FORECASTS FOR MANUFACTURING: SCOTLAND AND THE UK

		QMU	QMS	EMS	US
1980	Q3	93	92		
1980	Q4	91	91		
1981	Q1	90	89	520	285
1981	Q2	90	88	513	305
1981	Q3	92	89	511	315
1981	Q4	91	89	504	327

Where: QMU = Manufacturing Output UK (1975 = 100)
 QMS = Manufacturing Output Scotland (1975 = 100)
 EMS = Manufacturing Employment Scotland (thousands)
 US = Total Unemployment Scotland (thousands)

Following the completion of the destocking phase of the recession during the first and second quarters of 1981, manufacturing output should stabilise (albeit at a level more than 10% below 1975 levels). No strong recovery can be expected before the end of 1981. Manufacturing employment will continue to fall, following its customary lagged response to output changes. Unemployment will, in consequence, continue to rise, exceeding 300,000 when the first batch of school leavers of 1981 enter the labour market. By the fourth quarter, we expect the level to have reached 327,000.